

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**SB 3236 – HB 3596**

April 12, 2010

**SUMMARY OF AMENDMENT (015748):** Adds language that holds local governments harmless from the loss of state-shared sales tax revenue and local option sales tax revenue when derived from the retail sale of food; adds language that holds local governments harmless from the loss of local option sales tax revenue when derived from non-food items; adds language that holds local governments harmless from actual or potential loss of income tax revenue which is currently being received from the Hall Income Tax; adds language that specifies the allocation method to local governments for revenue generated by the newly proposed income tax; makes changes to franchise tax law where the tax can no longer be levied against the value of real property.

**FISCAL IMPACT OF ORIGINAL BILL:**

Increase State Revenue – Net Impact –

\$560,625,000/FY10-11/General Fund

\$1,065,667,000/FY11-12/General Fund

\$1,070,780,500/FY12-13 and Subsequent Years/General Fund

Decrease State Revenue –

\$10,550,000/FY10-11/Department of Revenue

\$21,500,000/FY11-12/Department of Revenue

\$22,000,000/FY12-13 and Subsequent Years/Department of Revenue

Increase State Expenditures –

\$15,444,900/FY10-11/General Fund

\$39,027,200 per year/FY11-12 through FY13-14/General Fund

\$19,729,000/FY14-15 and Subsequent Years/General Fund

Decrease Local Revenue – Net Impact –

\$979,000,000/FY10-11

\$2,036,000,000/FY11-12

\$2,120,000,000/FY12-13 and Subsequent Years

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:**

**Increase State Revenue – Net Impact –**

**\$560,625,000/FY10-11/General Fund**

**\$1,065,667,000/FY11-12/General Fund**

**\$1,070,780,500/FY12-13 and Subsequent Years/General Fund**

**SB 3236 – HB 3596**

**Decrease State Revenue –**

**\$10,550,000/FY10-11/Department of Revenue**

**\$21,500,000/FY11-12/Department of Revenue**

**\$22,000,000/FY12-13 and Subsequent Years/Department of Revenue**

**Increase State Expenditures –**

**\$971,244,900/FY10-11/General Fund**

**\$2,064,448,700/FY11-12/General Fund**

**\$2,148,237,200/FY12-13/General Fund**

**\$2,148,237,200/FY13-14/General Fund**

**\$2,128,939,000/FY14-15 and Subsequent Years/General Fund**

**Decrease Local Revenue – Net Impact –**

**\$41,950,000/FY10-11**

**\$85,578,500/FY11-12**

**\$87,290,000/FY12-13 and Subsequent Years**

**Assumptions applied to amendment:**

- Based on information provided by the Department of Revenue (DOR), major computer and programming system changes will be required throughout the Department to implement the provisions of this bill as amended. The initial one-time increase to state expenditures in FY10-11 for the beginning stages of such modifications is estimated to be \$3,719,400. Additional recurring state expenditures are anticipated for subsequent modifications over the next several years as certain taxes and apportionments are changed and/or phased out. It is anticipated that such expenditures would be required for a period of three years until the new tax system has been firmly established. Such increase to recurring state expenditures is estimated to be \$19,298,200 per year beginning in FY11-12 and ending with FY13-14.
- According to DOR, the Department would need considerable additional resources for implementing the provisions of this bill as amended. The Department indicates that 353 additional positions will be required (119 in Taxpayer Verification Services; 28 in the Audit Division; 54 in the Revenue Enforcement Division; 4 in the Special Investigations Division; 3 in the Legal Division; 47 in Information Technology Resources; and 98 in the Processing Division). The associated increase to recurring state expenditures is estimated to be \$19,729,000 per year (\$11,837,400 salaries, \$5,918,700 benefits; \$1,972,900 other). The associated one-time increase to state expenditures is estimated to be \$1,861,000 (computers, software, communications, supplies, equipment, etc.).
- Based on information provided by DOR, the following are estimates for FY10-11: Decrease to state sales tax revenue of \$1,778,000,000 (for general items); decrease to state sales tax revenue of \$519,700,000 (for food items); decrease to state sales tax revenue of \$43,000,000 (from eliminating single article tax); decrease to state sales tax revenue of \$5,900,000 (from reduction of tax for telecommunications businesses); decrease to state revenue of \$2,150,000 (from apportionment changes of sales tax

revenue relative to premier type tourist resorts); decrease to state revenue of \$430,000,000 (real property provisions related to franchise tax); and a decrease of state revenue of \$100,000,000 (from reducing current Hall Income tax). The increase to state revenue (from the newly proposed state income tax) is estimated to be \$4,000,000,000 in FY10-11. The net increase to state revenue for FY10-11 is estimated to be \$1,121,250,000. This estimate assumes a July 1, 2010 effective date. Due to the January 1, 2011 effective date, the net increase to state revenue for FY10-11 is estimated to be 50 percent of the full-year estimate (or \$560,625,000).

- Absent any hold-harmless provisions for local governments from the loss of state-shared sales tax revenue and local option sales tax revenue, there would be a net decrease to local government revenue of approximately \$1,958,000,000 in FY10-11. In addition, absent any hold-harmless provision for local governments from the loss of Hall income tax revenue, there would be an additional decrease to local government revenue of approximately \$37,500,000 in FY10-11.
- Amendment 015748 includes hold-harmless provisions for local governments from the loss of state-shared sales tax revenue and local option sales tax revenue when derived exclusively from the retail sale of food. In addition, amendment 015748 includes hold-harmless provisions for local governments from the loss of local option sales tax revenue derived from non-food retail sales. However, amendment 015748 does not hold local governments harmless from loss of state-shared sales tax revenue derived from the sale of non-food items. As a result, there will be a decrease to local government revenue estimated to be \$83,900,000 in FY10-11 (see next assumption).
- There will be an increase to state expenditures from the General Fund of \$1,874,100,000 as a result of the hold-harmless provisions proposed with amendment 015748, and an additional increase to state expenditures from the General Fund of \$37,500,000 to hold local governments harmless from loss of Hall income tax revenue. These estimates, as well as the estimate in the previous assumption, assume a July 1, 2010 effective date. Due to the January 1, 2011 effective date, the decrease to local government revenue for FY10-11 is estimated to be 50 percent of the full-year estimate (or \$41,950,000); and the increase to state expenditures from the General Fund for FY10-11 is estimated to be 50 percent of the full-year estimate (\$955,800,000).
- Based on information provided by DOR, the following are estimates for FY11-12: Decrease to state sales tax revenue of \$1,813,560,000 (for general items); decrease to state sales tax revenue of \$530,100,000 (for food items); decrease to state sales tax revenue of \$43,860,000 (from eliminating single article tax); decrease to state sales tax revenue of \$6,020,000 (from reduction of tax for telecommunications businesses); decrease to state revenue of \$2,193,000 (from apportionment changes of sales tax revenue to premier type tourist resorts); decrease to state revenue of \$438,600,000 (real property provisions related to franchise tax); and a decrease of state revenue of \$200,000,000 (from eliminating current Hall Income tax). The increase to state revenue (from the new proposed state income tax) is estimated to be \$4,100,000,000 in FY11-12. The net increase to state revenue for FY11-12 is estimated to be \$1,065,667,000.
- Absent any hold-harmless provisions for local governments from the loss of state-shared sales tax revenue and local option sales tax revenue, there would be a net decrease to local government revenue of approximately \$2,036,000,000 in FY11-12. In addition, absent any hold-harmless provision for local governments from the loss of Hall income

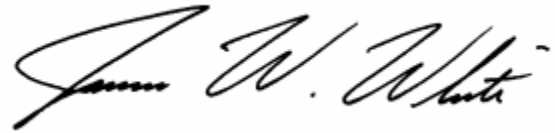
tax revenue, there would be an additional decrease to local government revenue of approximately \$75,000,000 in FY11-12.

- Amendment 015748 does not hold local governments harmless from loss of state-shared sales tax revenue derived from the sale of non-food items. As a result, there will be a decrease to local government revenue estimated to be \$85,578,500 in FY11-12.
- There will be an increase to state expenditures from the General Fund in FY11-12 of \$1,950,421,500 as a result of the hold-harmless provisions proposed with amendment 015748, and an additional increase to state expenditures from the General Fund for FY11-12 of \$75,000,000 to hold local governments harmless from loss of Hall income tax revenue.
- Based on information provided by DOR, the following are estimates for FY12-13 and subsequent years: Decrease to state sales tax revenue of \$1,849,831,000 (for general items); decrease to state sales tax revenue of \$540,702,000 (for food items); decrease to state sales tax revenue of \$44,737,200 (from eliminating single article tax); decrease to state sales tax revenue of \$6,140,400 (from reduction of tax for telecommunications businesses); decrease to state revenue of \$2,236,900 (from apportionment changes of sales tax revenue to premier type tourist resorts); decrease to state revenue of \$447,372,000 (real property provisions related to franchise tax); and a decrease of state revenue of \$204,000,000 (from eliminating current Hall Income tax). The increase to state revenue (from the new proposed state income tax) is estimated to be \$4,165,800,000 in FY12-13 and subsequent years. The net increase to state revenue for FY12-13 and subsequent years is estimated to be \$1,070,780,500.
- Absent any hold-harmless provisions for local governments from the loss of state-shared sales tax revenue and local option sales tax revenue, there would be a net decrease to local government revenue of approximately \$2,120,000,000 in FY12-13 and subsequent years. In addition, absent any hold-harmless provision for local governments from the loss of Hall income tax revenue, there would be an additional decrease to local government revenue of approximately \$76,500,000 in FY12-13 and subsequent years.
- Amendment 015748 does not hold local governments harmless from loss of state-shared sales tax revenue derived from the sale of non-food items. As a result, there will be a decrease to local government revenue estimated to be \$87,290,000 in FY12-13 and subsequent years.
- There will be an increase to state expenditures from the General Fund in FY12-13 and subsequent years of \$2,032,710,000 as a result of the hold-harmless provisions proposed with amendment 015748, and an additional increase to state expenditures from the General Fund of \$76,500,000 for FY12-13 and subsequent years to hold local governments harmless from loss of Hall income tax revenue.
- According to DOR, the Department will lose fee revenue for the collection of local option sales tax for local governments. Eliminating the local option sales tax will reduce DOR fee revenue by approximately \$21,100,000 in FY10-11; by \$21,500,000 in FY11-12; and by an amount exceeding \$22,000,000 in FY12-13 and subsequent years.

- The fiscal impact for FY10-11 is estimated at 50 percent of the first full-year impact due to the January 1, 2011 effective date.

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

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